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Kaifu Withdraws From LDP Leadership Race

Political developments in Tokyo in the latter part of September and the early days of October have given an entirely new meaning to the word "unpredictable." Prime Minister Toshiki Kaifu, previously expected by many political analysts to win reelection to the ruling Liberal Democratic Party presidency and the premiership when his party term expires October 30, announced October 4 that he would not seek the ruling party's top leadership position. Mr. Kaifu's abrupt decision to withdraw from the race followed the scrapping three days earlier of a cabinet-approved package of bills that would have reformed Japan's political system. The prime minister repeatedly had declared that he would stake his political life on this legislation.

Although only one factor in his downfall, Mr. Kaifu's handling of the decision by LDP influentials to pull the political reform package undercut much of his already tenuous support within the LDP. Mr. Kaifu, whose corruption-free background had attracted the attention of LDP doyens more than two years ago, had been tapped by faction leaders to help rectify the party's tainted image in the wake of the Recruit Co., Ltd. influence-peddling scandal. Ironically, the prime minister appears to have been undone by precisely the behind-closed-doors wheeling and dealing that many Japanese associate with the style of politics that gave rise to the Recruit affair.

In an October 5 press conference Mr. Kaifu declined to go into specifics about his decision to step down at the end of October as LDP president and prime minister, saying instead that he was compelled to do so by his commitment to reforming Japan's political system. "Clarifying responsibility is an important part of political reform," he said. The prime minister emphasized that his successor should continue this effort. "The fire of political reform must never be extinguished [and] I hope the new leader will carry out [these changes]," Mr. Kaifu said.

During the special Diet session, which ended October 4, the prime minister had been pushing for enactment of three bills that would have redrawn electoral districts for the Diet's lower house and revised campaign financing laws. Perhaps the most controversial provision would have reduced the number of seats in the House of Representatives from 512 to 471. Of this reduced number of members, 300 were to be elected from single-seat constituencies, with the other 171 elected according to proportional representation. (Under the current multiseat system three to five representatives are elected from each of the 130 electoral districts.)

Although the political reform proposals were approved in late June by the LDP Executive Council and, subsequently, the cabinet, the ruling party was not united fully behind the proposed changes. An alleged "silent majority" of LDP members objected to the plan because a switch to a single-seat system would mean that some representatives either would lose their constituencies or would be forced to run in different districts. A significant number of LDP members also questioned whether a single-seat system would bring an end to the exorbitantly expensive political campaigns that have been characteristic of the multiseat system (see JEI Report No. 25B, July 5, 1991). The opposition parties, which more likely would incur the most losses in single-seat contests, opposed the reforms outright.

Typical of the arcane world of Japanese politics, where considerable negotiating and dealmaking occurs behind closed doors, it appears that the October 1 decision by the lower house's special committee on political reform to kill the political reform legislation was motivated as much by substantive disagreements as by some legislators' desires to change the LDP leadership. Unlike most previous prime ministers, Mr. Kaifu is not a faction head. Due to his lack of a strong political base, the prime minister has been dependent on the support and general good graces of Shin Kanemaru, head of the largest LDP faction that bears the name of ex-Prime Minister Noboru Takeshita. This dependency has been so strong, in fact, that critics labeled the Kaifu administration a Kanemaru/Takeshita puppet government. But even with these ties, Mr. Kaifu has appeared at times vulnerable to an ouster due, in part, to his cautious, deliberative -- some might say indecisive -- leadership style and the maneuvering of would-be successors, who may not have been supportive of many of his initiatives.

Despite Mr. Kaifu's tenuous hold on the LDP presidency, some analysts were saying as recently as late August that he stood a good chance of winning reelection because of his strong public popularity as well as the political opportunities created by Japan's brokerage and banking scandals (see JEI Report No. 32B, August 23, 1991). While no politicians have been linked directly to these scandals, political commentators suggested at the time that the public, sensitized by news reports of questionable behavior in financial matters, would

oppose prime ministerial contenders -- such as former Finance Minister Kiichi Miyazawa and ex-Prime Minister Takeshita -- who were forced to resign their posts more than two years ago due to the nature and the extent of their involvement with Recruit.

By the end of the first week of September, however, Mr. Kaifu's political prospects took a turn for the worse. Perhaps fed up with living in the shadow of the Recruit affair -- and viewing Mr. Kaifu as a "seat warmer" prime minister -- Mr. Miyazawa announced September 7 that he would challenge the incumbent for the LDP presidency. The same day in Washington former Prime Minister Yasuhiro Nakasone at a conference sponsored by the Center for Strategic and International Studies and the Japan-America Society indirectly referred to Mr. Kaifu in a speech as a "relief pitcher." One week later Hiroshi Mitsuzuka and Michio Watanabe, the heads of the second- and the fourth-largest LDP factions, respectively, indicated that they had agreed on "the need to change the country's political stream."

By the end of September political reform was dead. This does not appear to be a coincidence. While no one in the U.S. or Japanese governments is willing to speculate, Mr. Miyazawa and other senior LDP officials critical of Mr. Kaifu's leadership certainly have the clout -- and may have affected the special Diet committee's decision -- to kill the political reform package; this tactic was viewed as a means of forcing the prime minister out of the upcoming race.

Mr. Kaifu's ultimate undoing, however, may have been the way in which he handled this overt challenge to his leadership. On learning of the special committee's decision, the prime minister angrily said that this had given him the "firm determination" to carry out political reform. In a country renowned for the indirect manner in which people sometimes prefer to communicate, this phrase was understood as Mr. Kaifu's intent to dissolve the Diet and call for national elections so that voters could express their views on changing Japan's political system via their ballots. The prime minister's implied threat received round criticism from members of the ruling party, although some reports maintain that Mr. Kaifu made his uncharacteristically blunt statement with the approval of his political benefactor, Mr. Kanemaru. What may have cost the prime minister the support of the Takeshita faction was his apparent unwillingness to follow through on the implied threat to dissolve the Diet.

Another factor seemingly shaped this outcome as well. In a bow to the prime minister's plea for continued work on political reform, the secretaries general of the ruling and the opposition parties had convened to discuss setting up an interparty advisory panel to examine the issue. Mr. Kaifu, however, insisted that the group come under the jurisdiction of the speaker of the Diet's lower house -- controlled by the LDP -- and that it submit a report on proposed reforms before the regular session of the Diet convenes in January. When the five parties represented at the meeting rejected these proposals categorically in favor of an unofficial status for the group and a longer time frame for its study, Mr. Kanemaru apparently felt that a new LDP head was needed.

Messrs. Miyazawa, Mitsuzuka and Watanabe formally declared their candidacies for the LDP presidency October 5. Some press reports contend that Mr. Miyazawa -- who previously has held cabinet posts considered prerequisites for

the prime ministership, that is, Finance and Foreign Affairs -- currently is the front-runner, but he cannot expect to clinch the top leadership position without the backing of the 106-member Takeshita faction (see Table).

Liberal Democratic Party Factions, October 1991

(Diet upper and lower house membership)

Noboru Takeshita	106
Hiroshi Mitsuzuka	89
Kiichi Miyazawa	82
Michio Watanabe	70
Toshio Komoto	31
Independents	14
Total	392

At JEI press time Mr. Kanemaru had not indicated whether his group would field its own candidate or back one of the existing contenders. Some analysts have suggested that the Takeshita faction may be holding off to strengthen its leverage over the field; others contend that former LDP secretary general Ichiro Ozawa, Mr. Kanemaru's protege, may be approached to run. The up-and-coming member of the Takeshita faction, however, lacks Mr. Miyazawa's diplomatic and international financial experience; moreover, he was hospitalized earlier this year with heart problems. Former Agriculture Minister Tsutomu Hata also has been mentioned as a possible Takeshita faction-sponsored candidate, although as chairman of the LDP's Research Commission on the Election System, he may be perceived as favoring timely action on political reform.

The election for LDP president has been set for October 27. The winner of this race, in turn, will be elected prime minister shortly after because of the LDP's majority in the lower house. According to the Japanese constitution, the decision of the Diet's lower house in selecting the nation's leader, if different from that of the upper house (controlled by the opposition parties), always will prevail.

Barbara Wanner

Special Diet Session Adjourns

Although Prime Minister Toshiki Kaifu's priorities for this year's special legislative session were passage of a package of political reform bills and a measure that would allow lightly armed military personnel to join United Nations-sponsored peacekeeping operations, the Diet adjourned October 4 with neither enacted. The political reform legislation was killed (see preceding article). Along with a separate measure to allow Self-Defense Forces members to engage in overseas disaster relief missions, the U.N. peacekeeping operations bill was tabled for further consideration in the regular Diet session, scheduled to convene in January.

Many Japanese experts remain convinced, however, that a discount rate cut is on the way. One scenario calls for the cut to come soon after BOJ governor Yasushi Mieno returns from a mid-October meeting of financial leaders from the Group of Seven industrial democracies in Bangkok, Thailand. That meeting coincides with a World Bank/International Monetary Fund meeting that starts October 13.

In addition to being consistent with other recent monetary measures taken in Japan, the change in the reserve requirement fits into a long-run pattern. The Bank of Japan continues to play the role of free-market economics instructor to its sometimes reluctant pupils in the banking community. The ways in which BOJ has moved to change its intervention instruments (see JEI Report No. 42B, November 4, 1988) and to eliminate window guidance (see JEI Report No. 27B, July 19, 1991), combined with the reserve requirement change (ahead of or in place of dropping the discount rate), suggest that the Japanese central bank continues to refashion its monetary policy into a form that more closely resembles that of the United States and other industrial countries. Instead of direct intervention in bank activities through lending or administrative guidance, BOJ clearly is signaling the financial community that it prefers to operate through market mechanisms. Some observers, accustomed to having the central bank overwhelm financial institutions with its straightforward fastball deliveries, have characterized BOJ's new approach as a reach for a curveball.

The move on reserve requirements reflects BOJ's market-oriented philosophy in three ways. By avoiding (for now) a discount rate cut in favor of changes in reserves, the central bank has chosen the more hands-off alternative. Moreover, in lowering reserve requirements, it lifts what amounts to a regulatory burden on banks. The sharp cut and resultant low level of reserves suggest that further reductions are unlikely soon, given concerns about the safety and the soundness of the banking system. To the extent that BOJ minimizes its future use of discount rate adjustments and reserve requirement changes, it is left primarily with the mainstay of U.S. monetary policy -- open market operations that work in a nondiscriminatory fashion through credit markets. Coming months will demonstrate how well Japanese banks like the new pitching style.

Douglas Ostrom

United States Nudges Japan From Ranking As World's Top Aid Donor

In 1990 the United States regained its position as the largest donor of foreign aid among the 18 nations making up the Organization for Economic Cooperation and Development's Development Assistance Committee, the Paris-based organization announced October 1. Questions over whether certain types of debt forgiveness should be included in DAC members' accounts of aid disbursements complicated the most recent OECD effort to compare economic assistance programs and delayed this year's release of the preliminary figures three months beyond the usual date.

Central to this debate is the question of whether the United States should be able to report as economic assistance $1.2 billion of military debt forgiveness for Egypt. This represents the 1990 portion of a nearly $7 billion

military debt Washington decided last year to cancel in return for Egypt's support in the Persian Gulf War. DAC Statistical Reporting Directives allow members under certain conditions to report as official development assistance the forgiveness of some non-ODA debt. In preliminary discussions of how to record debt forgiveness DAC members concurred that military aid should not be included in DAC economic assistance statistics, but they were divided over how to treat forgiveness of military debt and other non-ODA debt.

OECD reported that some donors, presumably including the United States, contended that military debt forgiveness is not equivalent to military aid and can have an economic effect equivalent to that of other forms of debt relief. Japan reportedly was foremost among the members that asserted that including forgiveness of military debt in ODA figures is inappropriate. The OECD report said that certain members pointed to problems with counting such debt forgiveness as aid, "particularly in a situation where developing countries are encouraged by donors to reduce military expenditures and arms imports, and also because of the possible adverse effect on public opinion." Moreover, Tokyo, which prohibits weapons exports to all but the United States, this spring announced new guidelines for foreign aid that include taking into consideration whether a recipient nation is developing or manufacturing weapons of mass destruction (see JEI Report No. 16B, April 26, 1991).

Another aspect of the debate is whether to include forgiveness of export credit claims in DAC members' economic assistance records. Japan reported $15 million of this form of non-ODA debt relief last year. DAC agreed to review the issue of what to record as debt forgiveness, taking a close look at military debt and export credits. OECD included the non-ODA debt forgiveness reported by certain members in their individual records but omitted the amounts from total DAC aid pending the committee's review of the issue. Excluding the military debt forgiveness figure would not change America's number-one ranking among DAC donors, but observers note that inclusion of this type of non-ODA debt relief could affect future rankings.

Currency fluctuations and the timing of contributions to multilateral organizations often play into comparisons of DAC members' foreign aid programs. That was the case in 1989 when a significant drop in net disbursements of U.S. official development assistance precipitated America's loss of its longtime standing as the world's top aid donor. Japan then moved into the number-one position, which it had been close to attaining for several years. Last year U.S. foreign aid jumped 48.1 percent, bringing this country's net disbursements of economic assistance to $11.4 billion (see Table 1). Japan returned to the number-two position among DAC donors, with outlays of just over $9 billion for economic assistance.

Japan's net disbursements last year rose 6.2 percent in yen terms and 1.2 percent in dollar terms from 1989's level. After adjustments for changes in prices and the yen-dollar exchange rate, Japan's total ODA disbursements increased more than 4 percent in 1990. Bilateral assistance increased 3 percent in real terms while multilateral contributions rose 8 percent. More than half of Japan's bilateral aid consisted of loans, which increased by an adjusted 4 percent in 1990, the OECD reported. Grants rose 3 percent.

Overall DAC net disbursements to developing countries and multilateral institutions reached $54.1 billion in 1990, up 15.7 percent in nominal terms

Table 1: ODA of Major Donor Countries, 1986-90

(in millions of dollars; net disbursements)

1990 Rank	Country	1986	1987	1988	1989	1990*	Share of Total DAC ODA 1990*
1	United States	$9,564	$8,945	$10,141	$7,676	$11,366	21.0%
2	Japan	5,634	7,342	9,134	8,965	9,069	16.8
3	France**	3,403	4,489	4,777	5,162	6,571	12.2
4	Germany	3,832	4,391	4,731	4,948	6,320	11.7
5	Italy	2,404	2,615	3,193	3,613	3,395	6.3
6	United Kingdom	1,737	1,871	2,645	2,598	2,647	4.9
7	Canada	1,695	1,885	2,347	2,320	2,470	4.6
DAC Total***		36,663	41,426	48,132	46,723	54,077	100.0

*Preliminary.
**Excluding overseas departments and territories.
***1990 total includes France's overseas departments and territories but does not include disputed amounts.

Source: Organization for Economic Cooperation and Development

Table 2: ODA as Percentage of GNP for DAC Countries, 1986-90

(in millions of dollars; net disbursements)

1990 Rank		1986		1987		1988		1989		1990*		Percent Change 1989-90*
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	
1	Norway	$798	1.20%	$890	1.09%	$985	1.13%	$917	1.05%	$1,207	1.17%	31.5%
2	Netherlands	1,740	1.01	2,094	0.98	2,231	0.98	2,094	0.94	2,592	0.94	23.8
3	Denmark	695	0.89	859	0.88	922	0.89	937	0.93	1,171	0.93	25.0
4	Sweden	1,090	0.85	1,375	0.88	1,534	0.86	1,799	0.96	2,012	0.90	11.8
5	Finland	313	0.45	433	0.49	608	0.59	706	0.63	846	0.64	19.8
6	France**	3,403	0.48	4,489	0.51	4,777	0.50	5,162	0.54	6,571	0.55	27.3
7	Belgium	547	0.48	687	0.48	618	0.39	703	0.46	891	0.45	26.6
8	Canada	1,695	0.48	1,885	0.47	2,347	0.50	2,320	0.44	2,470	0.44	6.5
9	Germany	3,832	0.43	4,391	0.39	4,731	0.39	4,948	0.41	6,320	0.42	27.7
10	Australia	752	0.47	627	0.34	1,101	0.46	1,020	0.38	955	0.34	-6.3
11	Italy	2,404	0.40	2,615	0.35	3,193	0.39	3,613	0.42	3,395	0.32	-6.0
12	Japan	5,634	0.29	7,342	0.31	9,134	0.32	8,965	0.31	9,069	0.31	1.2
13	Switzerland	422	0.30	547	0.31	617	0.32	558	0.30	750	0.31	34.5
14	United Kingdom	1,737	0.31	1,871	0.28	2,645	0.32	2,598	0.31	2,647	0.27	1.9
15	Austria	198	0.21	201	0.17	301	0.24	282	0.23	389	0.25	37.7
16	New Zealand	75	0.30	87	0.26	104	0.27	87	0.22	93	0.22	6.7
17	United States	9,564	0.23	8,945	0.20	10,141	0.21	7,676	0.15	11,366	0.21	48.1
18	Ireland	62	0.28	51	0.19	57	0.20	49	0.17	57	0.16	16.3
DAC Total***		36,663	0.35	41,426	0.34	48,132	0.36	46,723	0.34	54,077	0.35	15.7

*Preliminary.
**Excluding overseas departments and territories.
***1990 Total includes France's overseas departments and territories, but does not include disputed amounts.

Source: Organization for Economic Cooperation and Development

and 4 percent in real terms. OECD officials attributed the rise to significant increases in foreign aid by several countries, including the United States, Japan and France. Had France's disbursements to its overseas departments and territories been included, that country's net ODA disbursements would have been nearly $9.4 billion, elevating it to the number-two donor spot, instead of the number three.

Economic assistance as a percentage of gross national product for DAC members' combined totals rose only slightly from 0.34 percent in 1989 to 0.35 percent last year, an improvement the OECD report said reflected in part the expected recovery from 1989's markedly low level (see Table 2). As in previous years, the highest ODA/GNP ratios were achieved by Norway, the Netherlands, Denmark and Sweden. At 0.31 percent, Japan's 1990 GNP/ODA ratio remained unchanged, as did its 12th-place ranking on this scale among DAC members. The U.S. ratio rose to 0.21 from 0.15 in 1989; only Ireland gave a smaller share of GNP.

Moving Japan's ODA/GNP ratio closer to the DAC average is one goal of the fourth medium-term foreign aid program announced by the Japanese government in June 1988. Foreign Minister Taro Nakayama expanded upon that objective this past June by urging the government to consider boosting the ratio to 1 percent within five years. Another target announced in Tokyo's 1988 plan is to increase the aggregate amount of economic assistance disbursed over the 1988-92 period to more than $50 billion. ODA disbursements in the first three years of the plan totaled $27.3 billion. The Ministry of Foreign Affairs has indicated that its request for a 9.8 percent increase in foreign aid spending during FY 1992 should enable Tokyo to meet the five-year pledge.

Economic assistance plans for Eastern Europe as well as the Soviet Union are expected to have an impact on the 1991 DAC figures. Preliminary OECD data on DAC efforts to provide official development aid for Eastern Europe show Japan among the large donors to the region in 1990, reporting disbursements of $153 million. DAC members' contributions to Eastern Europe, which totaled about $1.5 billion last year, do not suggest a significant diversion of ODA from developing countries, OECD noted.

The latest OECD assessment of foreign aid trends reflects expanding demands on donor countries' resources. The assessment also underscores the political nature of the various forms of economic assistance, which has implications for future definitions of foreign aid.

Margo Grimm

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

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